

VZCZCXRO8612  
RR RUEHRG  
DE RUEHBR #1659/01 2231927  
ZNR UUUUU ZZH  
R 111927Z AUG 06  
FM AMEMBASSY BRASILIA  
TO RUEHC/SECSTATE WASHDC 6325  
INFO RHEHNSC/NSC WASHDC  
RUEHRG/AMCONSUL RECIFE 5263  
RUEHSO/AMCONSUL SAO PAULO 7716  
RUEHRI/AMCONSUL RIO DE JANEIRO 2646  
RUEHBU/AMEMBASSY BUENOS AIRES 4190  
RUEHMN/AMEMBASSY MONTEVIDEO 6396  
RUEHAC/AMEMBASSY ASUNCION 5583  
RUEHSG/AMEMBASSY SANTIAGO 5677

UNCLAS SECTION 01 OF 02 BRASILIA 001659

SIPDIS

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [BR](#)

SUBJECT: BRAZIL INTERNAL POLITICS UPDATE, 7-11 AUGUST 2006.

REF: BRASILIA 1441 AND PREVIOUS

¶1. (SBU) SUMMARY. The Parliamentary Inquiry Committee (CPI) investigating the so-called "blood suckers" (Sanguessugas) corruption scandal issued a report on August 9 that implicated 69 federal deputies and three federal senators, calling for their removal from politics. The scale of the accusations, 12 percent of the congress, is unprecedented in Brazil, even following a year of scandalous revelations of large-scale corruption. Corruption was also the subject of intense questioning directed at President Lula on a 10 August TV Globo interview. Contradicting earlier presidential statements, Lula claimed he fired former ministers Jose Dirceu and Antonio Palocci for their alleged roles in earlier scandals. END SUMMARY.

-----  
SANGUESSUGAS: CPI ACCUSES 69 DEPUTIES, 3 SENATORS  
-----

¶2. (U) The preliminary report of the Parliamentary Inquiry Committee implicated 69 federal deputies and three federal senators in the "Sanguessugas" corruption scandal, which involved payments to legislators to support overpriced purchase contracts for ambulances and medical supplies. The scheme involved a ten percent kickback for congressmen who introduced the purchases as amendments to the federal budget. The CPI called for the removal of the 72 from politics ("cassacao"); the CPI's findings are not yet final and are subject to further investigation. Eighteen legislators under suspicion were exonerated. The vast majority of the accused, 63 of 72, are from parties in the governing coalition, especially the Liberal Party (PL) and the Brazilian Labor Party (PTB), while the other 9 are from the opposition. One member of President Lula's party, the Workers Party (PT), was accused. Several of the accused are members of the so-called evangelical bloc; Band News said thirty percent are evangelicals. The accused constitute 12 percent of the congress. Many of these same parties were implicated in the "mensalao" scandal (i.e., the systematic monthly bribery of legislators by PT operatives in exchange for votes) that rocked Lula's PT party and governing coalition over the past year.

¶3. (U) The CPI's findings were based largely on the testimony of Luiz Antonio Vedoin, one of the owners of the Planam firm that sold the ambulances, as well as telephone wiretaps and bank records showing payments to legislators. The total amount of payoffs is around 9 million reais (about USD 4 million); the CPI said the largest amount to an individual was about a third of the total, paid to Lino Rossi (Progressive Party, of Mato Grosso state.) The CPI said 19 of the accused received over 100,000 reais each (about USD 45,000).

¶4. (U) The next step involves a congressional decision on each

case, leading either to exoneration or expulsion from congress and a permanent ban on political activity by that individual. This will probably happen in 2007, during the next congress.

-----  
LULA CONTRADICTS EARLIER STATEMENTS: "I FIRED DIRCEU AND PALOCCI"  
-----

15. (SBU) President Lula appeared on TV Globo's Jornal Nacional, the main evening news program, on August 10 in TV Globo's series of candidate interviews. Globo anchors William Bonner and Fatima Bernardes questioned him so aggressively on corruption scandals that Lula could scarcely talk about anything else, staying on the defensive and unable to control the interview. The most significant revelation in the interview was Lula's claim that he fired his former head of the civil household Jose Dirceu and Finance Minister Antonio Palocci for their roles in earlier scandals. Previously, Lula and the presidential palace (Planalto) had maintained that both had resigned. (Comment: It is not clear whether Lula sought to show himself in a new, decisive light, or was so befuddled by the aggressive questions that he misspoke and inadvertently contradicted himself. End comment.)

-----  
LULA UP, ALCKMIN DOWN, IN POLLS  
-----

16. (SBU) Two major national polls this week showed President Lula increasing his lead over opponent Geraldo Alckmin, and gains by far left candidate Heloisa Helena. Others are in single digits. The Datafolha polling firm reported that Lula's lead widened from 16 to 23 points over Alckmin since a poll conducted in mid-July, from 44 percent to 47 percent, while Alckmin slipped from 28 to 24 percent of first round voting intentions. Far left candidate Heloisa Helena

BRASILIA 00001659 002 OF 002

went from 10 to 12 percent in the same period, essentially unchanged since it is within the margin of error for the poll. The same poll showed a second round match-up between Lula and Alckmin resulting in a 54 to 37 percent victory for Lula. A poll by CNT/Sensus this week showed Lula at 47.9 percent, Alckmin at 19.7, and Helena at 9.3 percent. Lula's lead over Alckmin in the Datafolha poll is greater than that of Fernando Henrique Cardoso over Lula at the same time before the 1998 elections, according to Folha de Sao Paulo. Television campaign advertising is permitted beginning only next week, and since most voters get their information from TV, the relative positions of candidates could shift, depending on the effectiveness of their TV messages. However, at this early stage, there is a growing body of polling indicating that Lula could win a first round victory.

SOBEL